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By Frank Umbach

Background: Reasons for a European Energy Foreign Policy

Since the end of the 1990s, international energy experts have stressed the increasing strategic importance of supply security in the triad of goals to which economic efficiency and environmental compatibility also belong. But only in the aftermath of the winter 2005/2006 gas conflict between Russia and Ukraine has the future security of German and European energy supplies become the focus of a broader political debate. It was the result of Russian cutbacks in gas deliveries affecting Ukraine as well as EU member states. The gas crisis has questioned a number of long-standing assumptions underlying Germany's energy and foreign policies.

For many years Germany and the EU have ignored that Moscow has indeed used its energy exports and pipeline monopoly as an instrument of foreign policy to intimidate and blackmail neighbouring states — albeit with little success — since the demise of the Soviet Union. Holding more than 25% of the world's natural gas and hard coal reserves and 6% of the world's oil reserves, Russia has also considerably increased its strategic position in many of the successor states of the USSR and in the new EU member states by buying up utility companies, pipelines, refineries, and infrastructure through Gazprom and other giant energy corporations. By expanding its monopoly positions throughout Eurasia, Gazprom now seeks direct access to customers and end users in the European Union and Germany in order to expand its market share from 26% at present to 38% by 2020. Russia is striving to build a gas cartel with Iran (with the second largest gas reserves), Algeria and other gas exporters which it would be able to dominate beyond just prices.

Other international economic and political conditions, too, have already changed to such a degree that it is useless to assert that "everything went well after all." Until 2004, observers in Germany also overlooked Asian, especially China's, energy demand and its implications for Europe's foreign and energy security policy. Germany did not wake up to this reality until its industry experienced mounting difficulties with imports of raw materials because China, India, and other states were prepared to pay far more than customary international market prices for them. On March 8, 2005, the Federal Association of German Industry (BDI) held a

congress on protecting Germany's supply of raw materials and energy, its first such event in more than twenty years. Since then, a high-ranking BDI group has been created to address issues of international raw materials and to formulate a national approach to them until the end of 2007.

For the first time in history, the present increase of energy demand in emerging economies like China and India coincides with the trebling of oil prices since 2003 and a crisis of mounting uncertainties about how long oil and gas reserves will last and how many resources will really be available on the future global market. Hence, the present global energy price and supply crisis is very different from past ones. But the economic rise of Asia (above all China) in particular has not only created an enormous regional energy demand, but also raises countless foreign and security policy questions for both regional and global stability and the future world order, as the present international conflicts of Iran and Sudan or China's Africa policies are highlighting.

The recent trends of re-nationalisation of energy policies and concomitant resource nationalism are not only threatening the future global market policy strategies and the WTO order, but are also jeopardising future global investments, energy efficiency and planned production levels. As a result, the supply-demand gap may widen and political factors may increasingly determine access to the oil fields in Africa, the Caspian Basin and the Middle East. In such a political environment, political solutions for regional conflicts will be difficult to find as the present conflict with Iran highlights.

Due to the global demand for oil and gas, rising political instability in many producer countries and the nearing of the "peak-oil" situation is beginning to change the overall balance of power in the relationship between energy producer and consumer states. The emergence of a "seller's market" will lead to a profound change in the nature of competition among consumers that may in turn stengthen re-nationalisation trends in the consumer countries.

The present high energy prices offer a significant increase of hard currency in the state budgets for many producer states. The New York Times columnist Thomas L. Friedman and others have identified a direct correlation and negative impact of average crude oil prices on political freedom, democratisation and the direction of cooperative or confrontational foreign policies. According to the "First Law of Petropolitics", the higher the average oil and gas

prices on the international market, the lower the internal political and economic reform willingness of governments and the more confrontational their foreign and security policies, leading to "petro-authoritarianism". It explains the present policies of those "petro-ist"-states such as Russia, Iran, Venezuela, Nigeria, Sudan and others, which are highly dependent on oil and gas for their GDP and have either weak institutions or authoritarian systems. They have started asserting themselves domestically as well as in their foreign policy environment by weakening the global democratization trend. This strategic trend, according to Friedman, even has the potential to distort "the whole international system and the very character of the post-Cold War world."[1] They undercut Western and European security interests as the result of dysfunctional energy politics.

The "Achilles Heel" of the European Economy: The Future Energy Security of the EU

Although, historically, energy questions dominated the negotiations leading to the treaties of Paris (1951) and Rome (1957), the specific institutional provisions were made just for coal and the nuclear industries (leading to the EURATOM treaty in 1957). As regards gas and renewable energy sources, each EU member is free to decide for its own national energy policies.

In 2002, the EU accounted for 16% of world energy consumption with just 6% of the world's population. In more detail, it represented in 1999 19% of world oil consumption, 16% of natural gas, 10% of coal and 35% of uranium. In 2001, oil was still the dominant fuel for 43% of total EU energy consumption, followed by gas at 23%. It imported 27.5% of its oil demand from Eastern Europe (mainly Russia), 24.6% from the Middle East, 20.5% from Africa and 19.95% from Norway.

The future increase of the EU's total energy demand will be predominantly generated by gas while the number of oil and solid-fuel power stations will continue to decline. With the EU's enlargement policies of accepting new East European countries, Europe's energy dependence has reached even more apprehensive perspectives. Natural gas imports, for instance, may rise from 60% to 90% and oil from 90% to 94% in demand.

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[1] Thomas L. Friedman (2006): 'The First Law of Petropolitics', Foreign Policy, May-June 2006, p. 28-36 (35).

In November 2000, the EU's Green Paper warned that in the next 20-30 years up to 70% of the Union's energy demand (presently 50%) will have to be imported. The EU's dependence on oil could even reach 90%, for gas 70%, and for coal 100%.

Thus the EU's long-term strategy for energy supply security has, more than ever, to cope with the challenge to ensure uninterrupted physical availability of energy products on the market, at a price which is affordable to all private and industrial consumers. At the same, the EU needs to balance its future energy supply policies with growing environmental concerns, which has become an even more important objective – highlighted by the Kyoto Protocol and in November by the new Stern-Review of the British government.

If no significant changes are made in Europe's energy policy, the total energy picture in 2030 will still be dominated by fossil fuels. Against this background, the EU has called for a mix of energy strategies that include the maintainance of nuclear energy, improving energy efficiency, changing consumer behaviour through taxation and other measures as well as doubling the share of renewable energy in the overall energy supply quota from 6% in 1997 to 12% by 2010 and raising its part in electricity production from 14% in 1997 to 22% by 2010. Energy Commissioner Andris Piebalgs has called for stronger action and has strengthened the EU's energy efficiency efforts in a new "Green Paper on Energy Efficiency" of September 2005.[2] The European Commission hopes that the EU could save at least 20% of its present energy consumption in a cost-effective manner. This would be equivalent to 60 billion Euro per year or the present combined energy consumption of Germany and Finland. Its energy demand management strategy gives added emphasis to diversification in energy supply, promotion of renewable energies and a neutral look at the nuclear option. In addition, after years of discrediting coal, the EC also views coal as an important energy source in the future which can contribute to enhance security of supply in the EU. It decided to support the technical progress in terms of actual clean burning processes of coal.

Furthermore, the expansion of natural gas as an environmental clean energy source will play both the most important and the most problematic factor in the next two decades for the EU member states. Already today, Europe is the largest natural gas import market and will continue to be the world's champion of gas importers until 2030. But today, almost half of the

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[2] See European Commission (2005): Green Paper on Energy Efficiency. Doing More with Less. Brussels, June 22, 2005. http://ec.europa.eu/energy/efficiency/doc/2005_06_green_paper_book_en.pdf

EU's gas consumption is being imported from only three countries: Russia, Norway, and Algeria. Given current trends, gas imports would increase to 80% over the next 25 years. In 2030, Europe will have to import some 530 bcm (North America: less than 200 bcm and China/India just 85 bcm). The share of gas in total primary energy demand will rise from 23% at present to 32% in 2030. A growing share of EU gas imports will be shipped as Liquefied Natural Gas (LNG) which would offer a better crisis stability for gas imports. But currently, only France, Spain, Greece, Italy, Belgium and Portugal have LNG import regasification facilities. At present, Europe's combined LNG import facilities can handle just 76 bcm a year. Against the background of an increasing dependence on unstable political oil and gas producer states, the EC has also called for an active and coherent External Energy Policy.

Towards an Energy Foreign Policy of the EU

Since the second half of 2003, the topic of "energy security" and its related foreign policy dimensions have also been discovered by the foreign ministries of major EU member states. In December 2003, energy was included in the EU's global "European Security Strategy" – one of the most important documents of the Common Foreign and Security Policy (CFSP). Moreover, in 2004 the British Foreign and Commonwealth Office published an international "Energy Strategy" with a specific foreign policy view,[3] while the Foreign Ministry of the Netherlands finished a similar internal policy document during the summer of 2005. Germany's Foreign Ministry, by contrast, discovered the need for a national and European energy and energy foreign policy only after the Russian-Ukrainian gas conflict in January 2006.

But the numerous differences between various national energy policies and priorities of the EU member states make any coherent international energy security strategy of the EU difficult to implement until it acquires a supranational authority to do so. Despite giving the EU more power and influence in the realm of energy policies in its Constitutional Treaty, it would still have remained a field where member states and the European Commission have to share their competence and authority and thus need to seek better cooperation and coordination of divergent national energy policies.

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[3] See Foreign and Commonwealth Office (2004): UK International Priorities. Energy Strategy. London, October 28, 2004. http://www.fco.gov.uk/Files/KFile/Energy_Report_281004,0.pdf

Without the European Constitution in place, however, the national differences in energy policies and strategies increasingly threaten the political cohesion and to undermine the EU's evolving CFSP. Although the EU has established its own energy partnership with Russia, many new EU member states (even France and Great Britain) have voiced criticisms or expressed their concerns about the ever-growing energy dependence of Germany from Russia because it may have unwanted implications for their own energy, foreign and security policies. The controversial discussions of a new underwater Baltic gas pipeline from Russia to Germany and the missing German consultation in advance of Poland, the Baltic States and Sweden have highlighted the unilateralist tendencies in German and European energy policies and the lack of a common and coherent EU energy security strategy. Those policies, justified by narrow-minded national interests, are extremely short-sighted because they also undermine the EU's Common Foreign and Security Policy as such. They also ignore the lesson that any individual EU member state is too weak for establishing itself as a strategic actor in the light of a growing energy resource competition vis-à-vis the U.S., China, Russia, India, Japan and the OPEC.

Against this background and in the light of the Russian-Ukrainian gas conflict, the EC has published a new Green Paper on March 8, 2006. It called once more for a common European Energy Policy which needs to meet three core objectives: sustainable development, competitiveness, and security of supply. Besides initiatives for completing the internal energy market, the Green Paper pays particular attention to the future security of supply in order to ensure solidarity among member states. It has, inter alia, proposed the establishment of a European Energy Supply Observatory and a revision of the existing Community legislation on oil and gas stocks to ensure timely and effective reaction to potential supply disruptions. Furthermore, the new Green Paper stresses the need for a common External Energy Policy ("*Energieaußenpolitik*") as part of the CFSP. In order to cope with the challenges of growing demand, high and volatile energy prices, increasing import dependency and climate change, the Commission believes that the EU needs to speak with a single voice in an age of increasing global energy resource competition. In this context, the EC has proposed concrete ideas and principles for a Common Energy Policy, including a common external dimension. Thereupon the European Council invited the Commission to prepare a set of actions with a clear timetable enabling it to adopt a prioritized Action Plan at its meeting in March 2007. The external aspects of energy security will constitute an important part of such an overall framework and will need to be included within the Action Plan. Commission and High Representative have therefore prepared a common paper on the EU's future External Energy

Policy, which has been welcomed by the European Council on June 15 and 16, 2006.[4] It calls for an External Energy Policy conducted in a spirit of solidarity by all EU member states and specifies a number of principles of a common European foreign policy "in order to enhance the external security of energy supplies". Furthermore it recommends enhancing the EU's energy security by diversifying energy resources and imports of the individual energy resources as well as transit routes in order to create new energy corridors. It proposes to establish a network of energy security correspondents from the member states, the Commission and the Council General Secretariat in addition to the European Energy Supply Observatory to monitor energy security developments around the world. Finally, it also announces new initiatives at the bilateral level towards major energy producers and partners of the EU, such as Russia, Norway, Algeria, Turkey and countries of Central Asia, the Middle East, the Gulf region, Africa and Latin America and to seek common approaches to global energy issues with Japan, China and India.

The European Council also encouraged the inclusion of energy issues into other Community policies and invited the Commission to reinforce the balance between internal and external aspects when preparing the Strategic Energy Review at the end of this year. On October 12, 2006, the Commission adopted a concept paper and Action Plan[5] for the informal European Council in Lahti, Finland, on October 20. The new paper includes most of the ideas outlined in the Solana-paper of last June. Indeed, at the summit in Lahti, the European Council and its member states were acting towards Russia with a much closer common stance than at any time before.

However, the discussion within the EU during the first half of 2006 has also highlighted a worrying trend of "energy nationalism" within the EU itself. A consequence of foreign bids to create national energy champions ahead of the full liberalization of the EU's energy market in mid-2007 can be the closing of markets from producing countries to consumers, like Spain, France and Austria. But these problematic trends inside the EU have again underlined why the need for a coherent and coordinated external policy for energy in Europe is seen as imperative for the future of the EU at a time when Europe's energy import dependency is increasing rapidly.

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4 See European Commission (2006): An External Policy to Serve Europe's Energy Interests. Brussels, June 16, 2006. http://www.consilium.europa.eu/uedocs/cmsUpload/st09971.en06.pdf

5 See Commission of the European Communities (2006): Communication from the Commission to the European Council. External Energy Relations – From Principles to Action. Brussels, October 12, 2006. http://ec.europa.eu/comm/external_relations/energy/docs/com06_590_en.pdf

Conclusions and Perspectives

Although after the Russian-Ukrainian gas conflict in January 2006 energy security has forced its way up the European policy agenda, the 25 EU member states have failed so far to forge a coherent European energy security strategy that envisages a clear response to the growing risks of oil and gas dependency over time. The many proposals for improving energy supply security have only little leverage because of the concentration of the remaining oil and gas resources in the politically unstable Middle East where state-owned companies control the resources. But if energy insecurity is rising and the world's energy demand can not be met because of the insufficiencies of the global energy systems, dysfunctional energy policies, or due to failing political stability in oil and gas producing countries, economic and political crises in countries and regions outside of Europe will have increasingly negative effects on Europe's future economic and political stability. Although renewable energies and new technologies (such as fuel cells) are becoming more important, they will reportedly be unable to contribute much to the global energy supply until 2025 or 2030.

In the light of the increasing geopolitical challenges and a development inside of Russia that raises increasing doubts whether Moscow will remain a reliable energy partner for the EU in a world ever more dependent on fossil fuels, it is more urgent and important than at any time before to speak with one voice. Yet, during the last 15-20 years the EU and its member states' energy policies have been increasingly determined by market forces while a separation of energy questions from political factors and strategic developments took place. Ultimately, energy policies have been left to the industry. Business interests, however, are primarily guided by short-term economic benefits in an increasingly competitive environment. At the same time, mid- and long-term national interests of energy supply security have been neglected by both energy companies and national governments such as Germany (see Michael Sander's contribution in this volume). Therefore, the organisation of security for oil and gas supplies can no longer be entrusted solely to the industry at a time when other regions and new/old key players like China and India are already pursuing aggressive national strategies which are determined by geopolitical considerations (including Russia and many OPEC countries) rather than relying on the "invisibile hand" of market forces. Whereas the traditional separation of economics from politics has made sense for the internal EU market due to existing common norms and understandings of the overall importance of market forces, energy policies determined outside of Europe are more than ever defined by strategic and

geopolitical interests in the context of national foreign and security policies (particularly in Russia, China, OPEC-countries, the U.S. and others).

Until very recently geopolitical factors affecting the international security of energy supply tended to be of lesser concern in many of the old EU member states than in the rest of the world. In contrast to many EU countries, such as Germany, until the end of 2005, the EC for Transport and Energy and foreign and security experts of the EU have intensified their work and analyses on the EU's future energy and supply security as the publication of two Green Papers on energy security in 2000 and 2006 are highlighting.[6] Since then, Germany has become a motor for an active national and European energy foreign policy. But a realistic assessment for the EU might still be that an approach of "learning by doing" prevails as it has been thus often in the case of the Common European foreign policy in the 1990s. That means that the EU might have to go through some other painful energy crises and learning its lessons before the political will of the member states will make possible the necessary political decisions for a real and adequate Common Energy and Energy Foreign Policy.

[6] See European Commission (2000): Green Paper: Towards a European Strategy for the Security of Energy Supply. Luxembourg, November 29, 2000
http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf
and Commission of the European Communities (2006): Green Paper. A European Strategy for Secure, Competitive and Sustainable Energy. Brussels, March 8, 2006.
http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf